# illion Quarterly Report

## Jan - Mar 2022

## New Zealand

April 2022

illion

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# Executive summary

Could New Zealand be facing an economic shock?

It has now been over two years since COVID-19 hit our shores and the New Zealand economy has been relatively resilient to date.

But with rising inflation and interest rates, international supply chain concerns, housing market uncertainties and the continuing long tail of COVID, what does the future hold?

The last quarter has been plagued with uncertainty and reduced consumer confidence. Inflation and cost of living increases are putting consumers and households under increasing pressure. In the past quarter, consumers have been less active in applying for credit, likely as a result of lower confidence.

The changes introduced in December 2021 to the Credit Contracts and Consumer Finance Act 2003 (CCCFA) appear to have created unintended consequences for consumers and lenders. Since the changes were introduced approval rates have reduced across all credit products and time to approve has more than doubled as application processes have become more complex.

### Risks

We are entering a new phase in 2022 – one where cash rates will go up, supply chain movements will be erratic, and payments times may continue to deteriorate in some sectors.

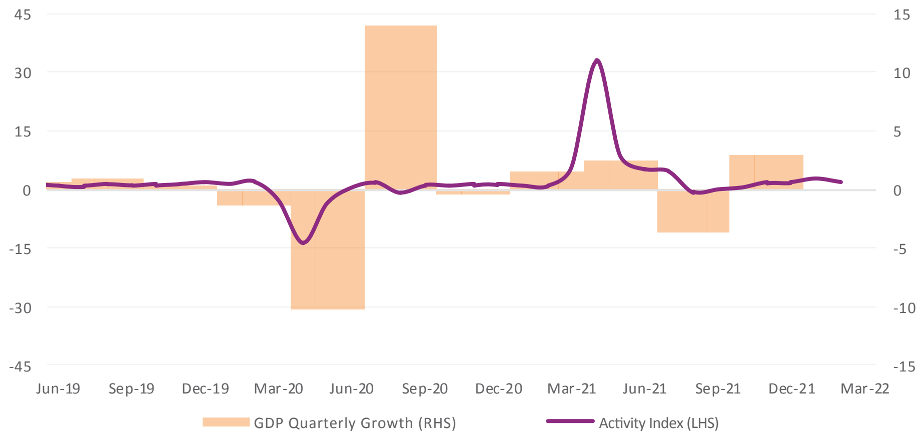
Some consumers will do well, but others are already financially stressed. Businesses and lenders need to be prepared to cope with ongoing change.

It is very important to keep track of how consumer spend and credit demand are structurally changing in order to stay ahead of the game. Being flexible and able to pivot as consumers change their consumption patterns continues to be the key to ensuring success in 2022.

# The New Zealand economy

## Gross Domestic Product

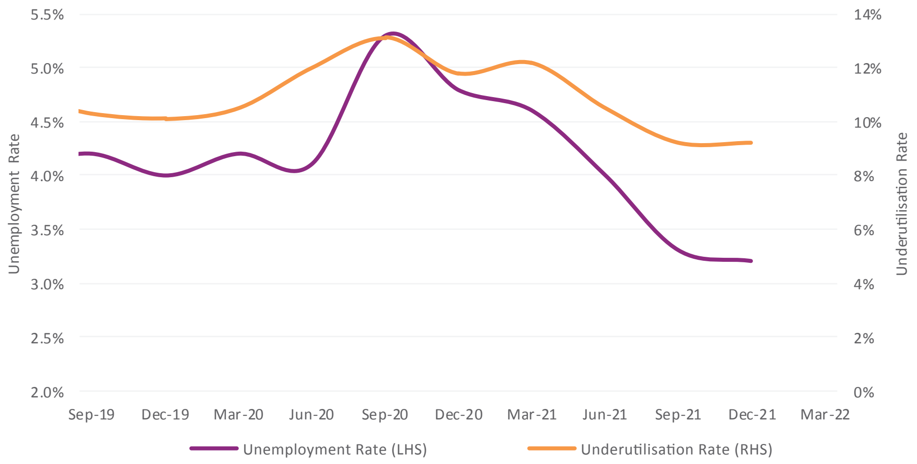
***GDP was up 3% this quarter following a small dip in September 2021. This was helped by easing restrictions – but Omicron impacts are not yet fully known, and are expected to weigh in on future results. Omicron risks are putting a dampener on the next few months, but experience across the Tasman indicates the impact will be less severe than previous outbreaks. The Russia-Ukraine conflict continues to impact on supply issues.***




Source: Treasury NZ. The **New Zealand Activity Index (NZAC)** summarises several monthly indicators of economic activity. This currently (as of June 2020) includes consumer spending, unemployment, job vacancies, traffic volumes, electricity grid demand, business outlook, and manufacturing activity. Latest data available references Dec-21 (GDP) and Feb-22 (NZAC).

## Unemployment and Underutilisation

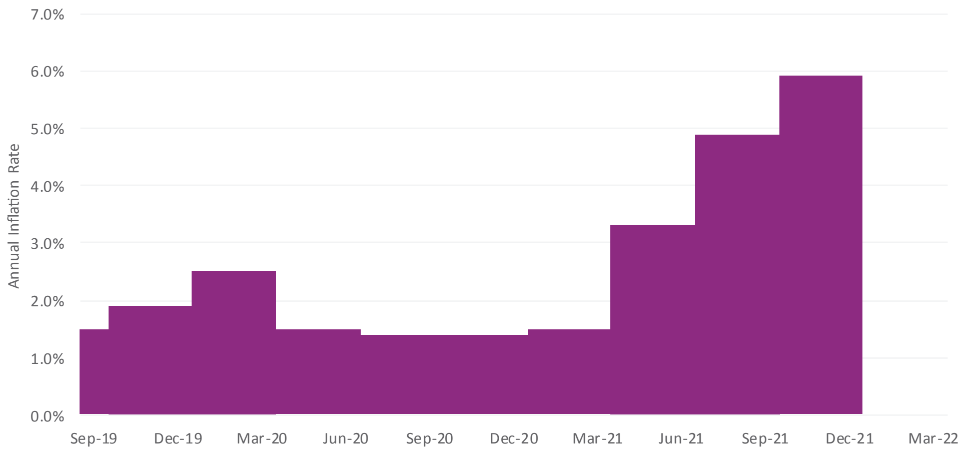
***The unemployment level in December 2021 was the lowest it has been for the past few years, but risks are still present in the economy. While this is positive, the labour market still faces uncertainties and risks over 2022. Labour shortages remain in some sectors, while there is an elevated number of people still existing on government benefits.***




Source: Stats NZ. Latest data available references Dec-21.

## Inflation and Cost Pressures

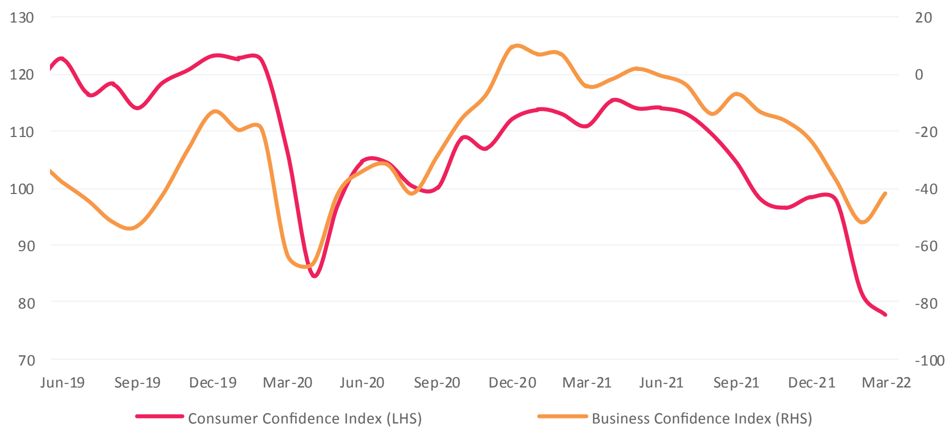
***The rise in the cost of living is forcing consumers to re-evaluate their spending habits. This increase is consistent with other global economies and has been led by demand for goods and eased restrictions. But the sentiment is that we have not seen the end of cost-of-living increases.***




Source: RBNZ. Latest data available references Dec-21.

## Consumer and Business Confidence

***It is no surprise that confidence is at its lowest level for New Zealand consumers, and businesses are not overly optimistic either. Consumers are not confident about the coming months as they are facing interest rate rises on mortgages, rising costs on everyday goods and fuel price increases. In particular, many are not willing to commit to expenditure on large household items. While there has been a small uptick in the last month from business owner confidence, this does not hide the less than favourable conditions.***




Source: Consumer confidence index from ANZ – Roy Morgan, data is compiled from a survey of ~1,000 consumers and weighted to reflect NZ's population distribution. Business confidence index from ANZ, data is based on the ANZ Business Outlook survey (ANZBO) which is designed to provide a snapshot of business opinions regarding the expected future state of their business and the New Zealand economy. Latest data available references Mar-22 (business) and Mar-22 (consumer).

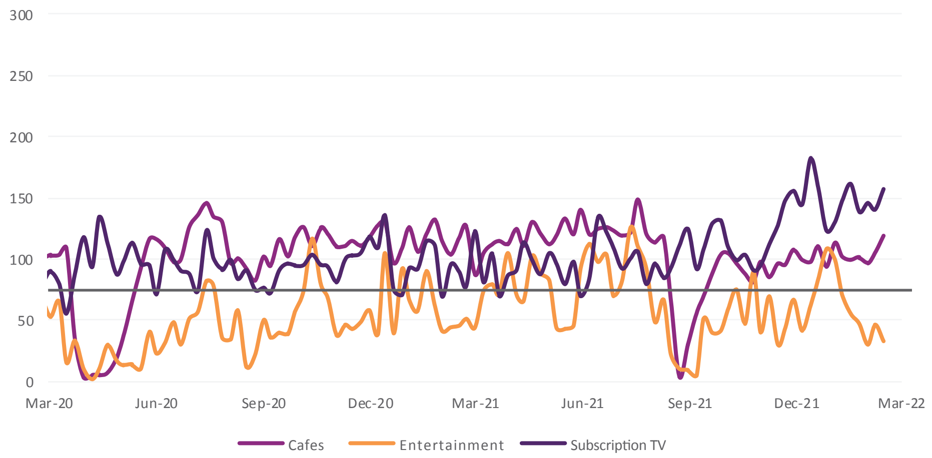
# What are consumers doing?

Businesses and lenders need to keep track of how consumer spend and credit demand have structurally changed – and stay ahead of change.

As consumers change consumption patterns it is important to ensure your business is equipped to monitor and adapt efficiently.

## Spending Trends - Social

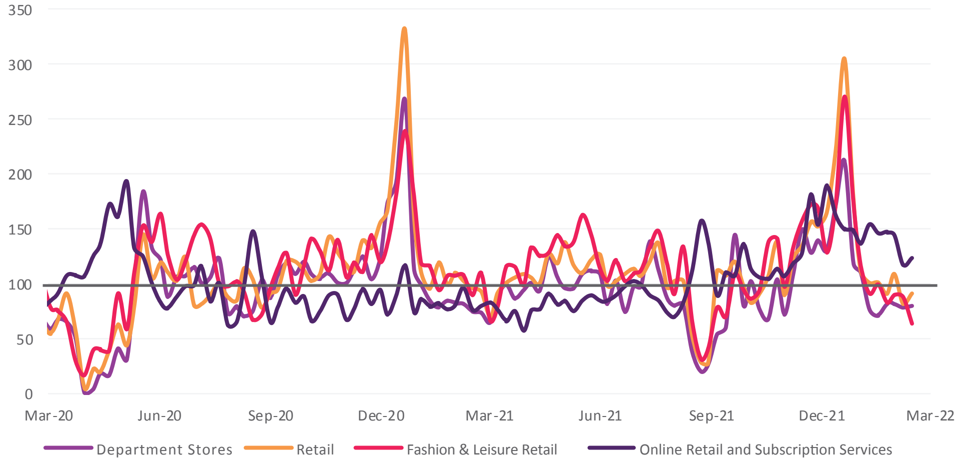
***New Zealanders are spending more but rising costs across the board have changed spending patterns. Consumers are starting to spend more on cafes as restrictions have eased in the last quarter. But continued inflation pressures and fuel prices are making Kiwis think twice about other discretionary spend such as entertainment.***




*Weekly Index of spend per person compared to a normal week. 100 represents a 'normal' week. Latest data references Mar-22.*

## Spending Trends - Retail

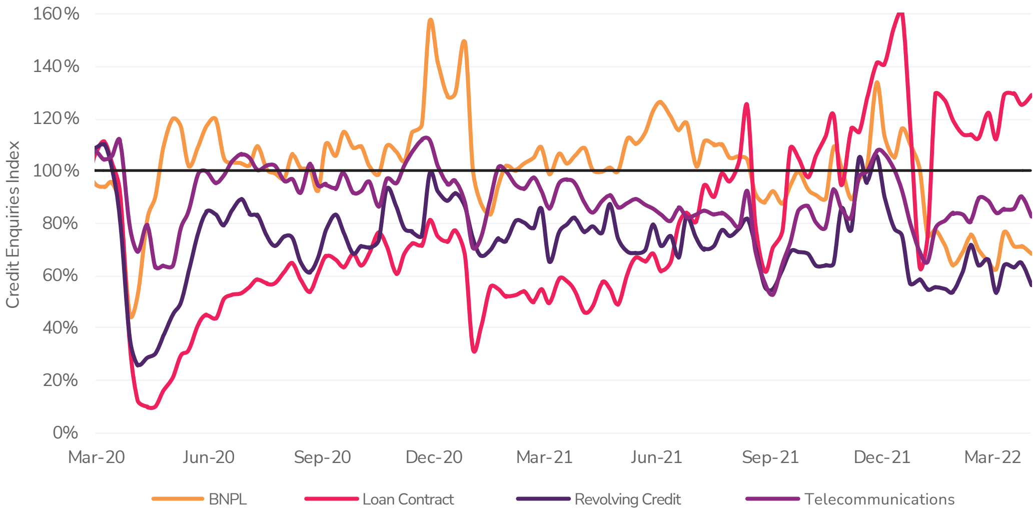
***Moving forward, businesses should consider how they can work more flexibly. Consumers have not yet returned in significant numbers to brick-and-mortar stores – very similar to patterns observed during Australia's early-mid Omicron wave. Flexibility in delivery could be the key to keeping consumers coming back – especially as we have observed that online offerings are still proving popular.***




*Weekly Index of spend per person compared to a normal week. 100 represents a 'normal' week. Latest data references the first week of Feb-22.*

## Consumer Credit Demand by Product

***When it comes to seeking credit, consumers appear to have been less active this quarter, likely due to an adjustment to a higher cost environment. BNPL and credit card demand has dropped to a lower level than the previous quarter (a sign some households are less confident and more mindful of their spending day to day). However, there has been a small uptick over the past month in personal loans.***




*Indexed to Jan 2020*

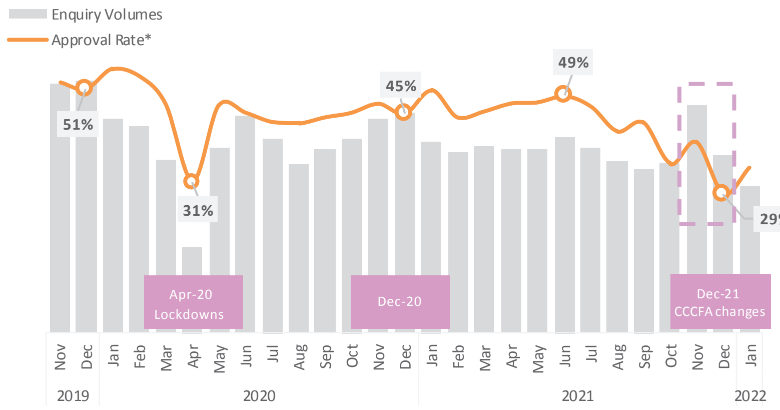
# CCCFA impact so far

The original intention of the CCCFA changes appears to have created unintended consequences for consumers and lenders.

Does your organisation have access to the right data and robust processes to manage these changes?

## Credit Card Approval Rates

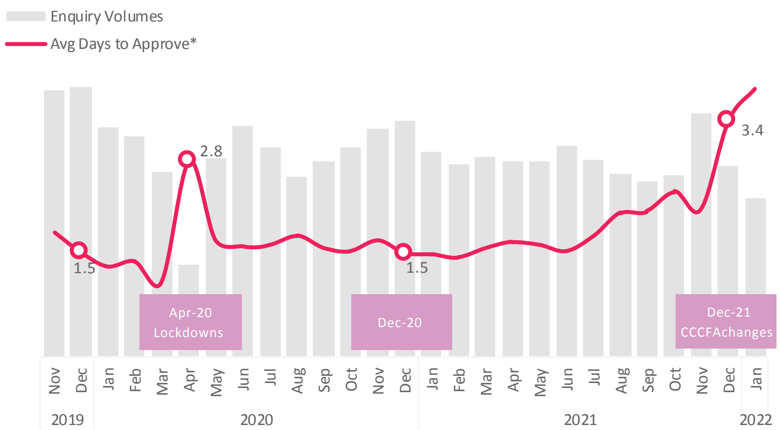
***Approval rates for new credit cards plunged significantly as CCCFA regulations came into place in December 2021 (28.9% down from 45.3% at the same time the previous year). The drop in December 2021 is the largest decrease since rates took a tumble during lockdown months. Enquiry volumes were still strong for December 2021, indicating demand is still present. Interestingly, approval rates over the past six months were already trending down from the mid-high 40s – potentially due to lenders already considering the impact of proposed CCCFA changes on their processes. Approval rates have climbed back up in January 2022, although this is likely due to seasonal fluctuations.***




*Data does not take into account Credit Limit Increases (CLIs) and focuses on new Credit Cards.*

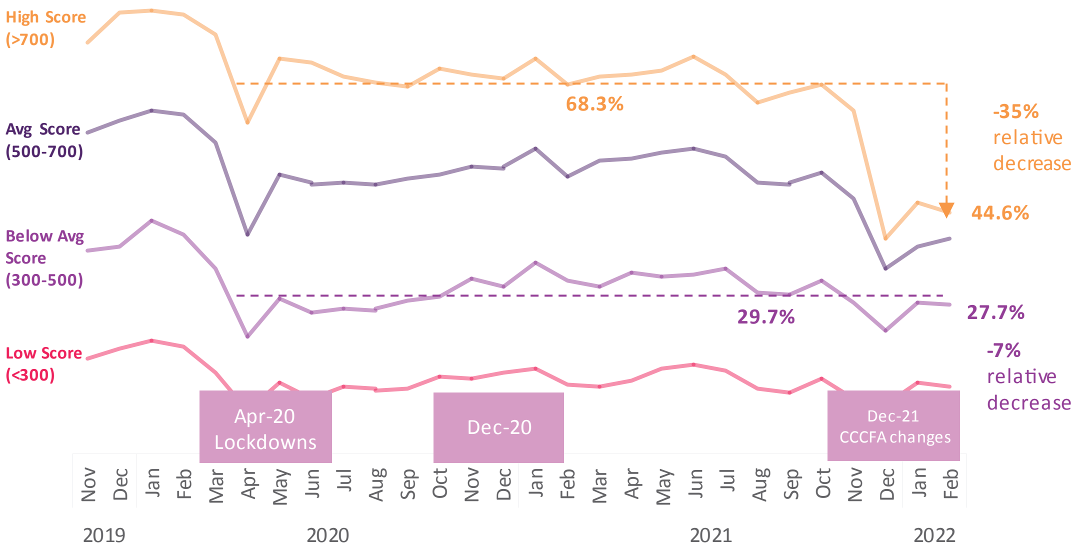
## Credit Card Average Days to Approve

***It is now taking twice as long to approve new credit cards; an early indicator that new lending standards are more challenging to apply. The time from enquiry to account open is taking significantly longer. In December 2021, it was taking an average of 3.4 days from enquiry to new Card account opening, more than double that of a year ago. Both lenders and consumers are feeling the effects of the regulation changes from a conversion rate AND time to approval.***



## Approvals by Risk Grade

***The highest scoring individuals have taken the largest hit to approval rates.***




## Impacts so far...

### Approval Rates

- Reduction in approval rates observed across all products.
- Is the purpose of the changes having an undesirable impact?

### Time to Approval

- Time to approve has more than doubled.
- Did the implementation of this new regulation consider the practical implications on the market?

### Consumers Welfare

- Consumers at risk are being rejected.
- Are new regulations causing unintended bias in the credit approval process, making things worse off for particular groups?

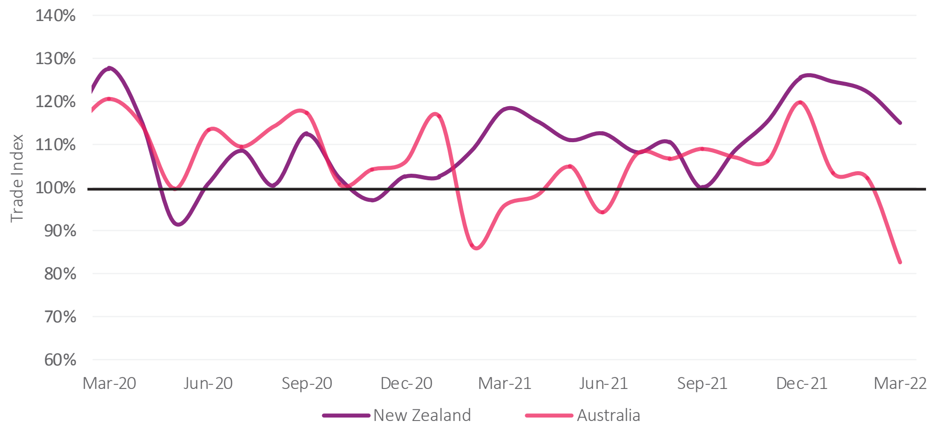
# How are businesses coping?

There is still a high level of uncertainty around, and it is likely to continue – international supply chain concerns, cost pressures, rising rates.

Can your business identify high-performing customers, those struggling with supply shocks, ones needing relief and support?

## Trade Revenue Trends

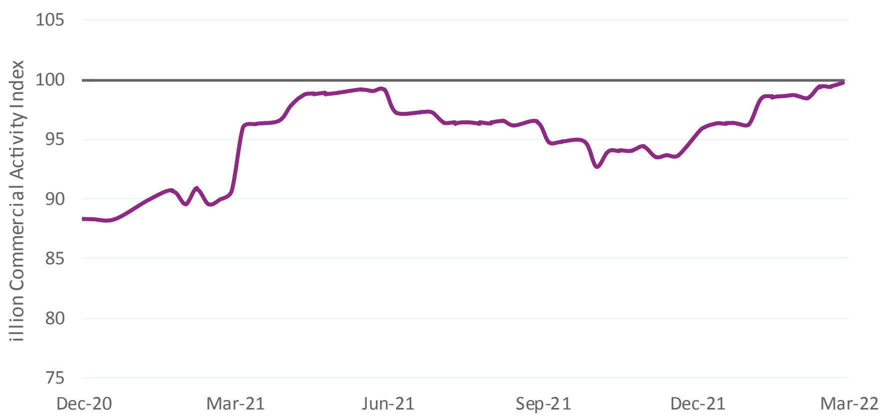
***A drop in revenue over the last quarter was entirely expected. Revenue and activity between suppliers is still unstable across industries.***




*Index is baselined to March 2019 - tracks a constant pop. of c.250k companies across AU / NZ. Mar-22 data is incomplete.*

## illion Commercial Activity Index

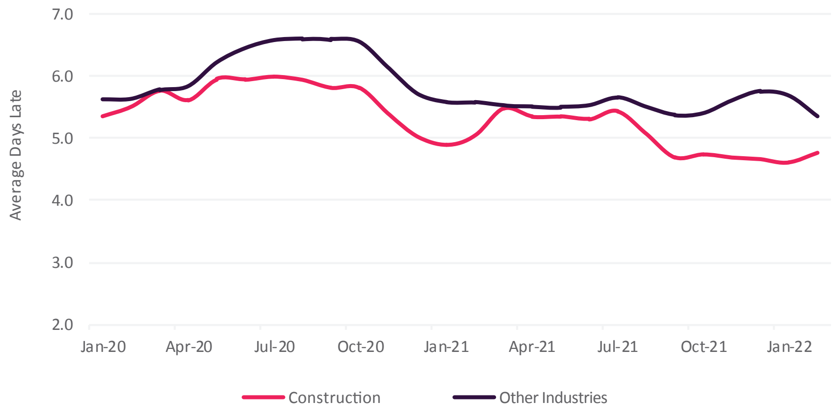
***Formerly known as the illion Commercial COVID index, this measures the level of activity now compared to 'pre-2020' levels – giving you a proxy of how a business is performing. Over the course of the last 24 months, businesses have had a turbulent time maintaining consistent activity/revenue streams. While business confidence is still not strong, the fact is that a more unrestricted economy is allowing businesses to trade again.***

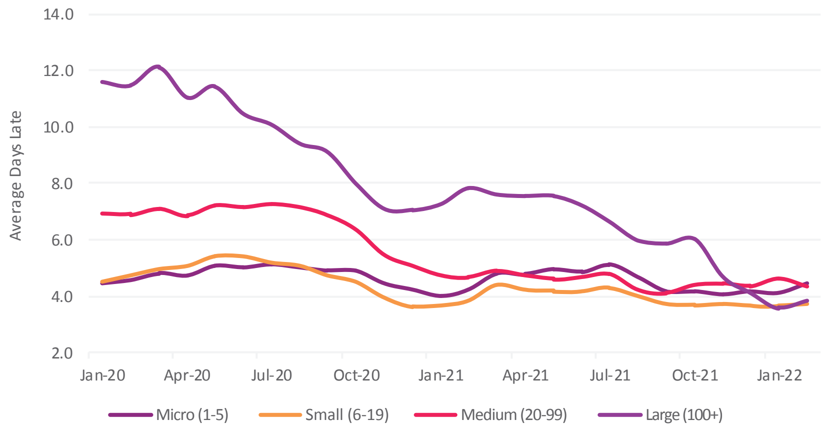



Index Interpretation: An index of 50 represents that current revenues are expected to be half what they were pre-COVID. 100 represents that current revenues are expected to be approximately the same as pre-2020. 150 represents that current revenues are approximately 50% (or more) higher than pre-2020 revenues.

## Construction Focus

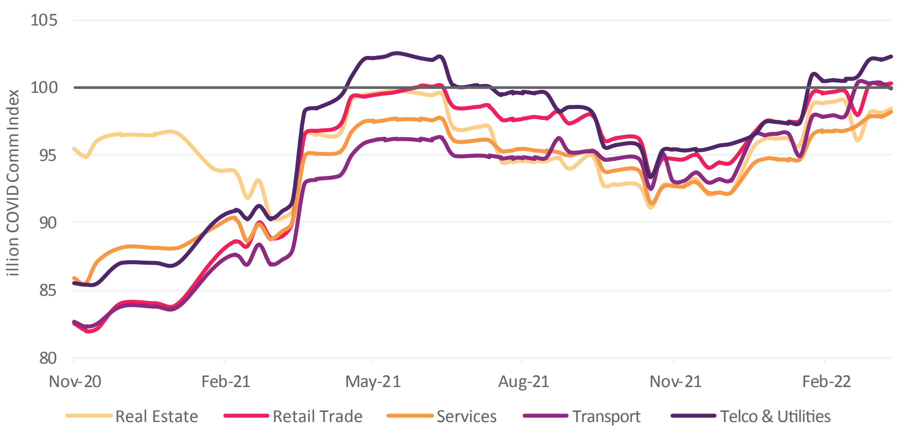
***The construction industry has shown resilience through the pandemic. The industry continues to be ahead of the market for paying suppliers on time. Large construction businesses have prioritised paying suppliers early. However, the impacts of recent rising material costs and continued supply disruptions remain to be seen on gross margins and subsequent cash flow.***




## illion Commercial Activity Index (By Industry)

***But it looks very different across different industries. Most industries are now recovering. Services will take time to fully recover as demand picks up.***




Index Interpretation: An index of 50 represents that current revenues are expected to be half what they were pre-COVID. 100 represents that current revenues are expected to be approximately the same as pre-2020. 150 represents that current revenues are approximately 50% (or more) higher than pre-2020 revenues.

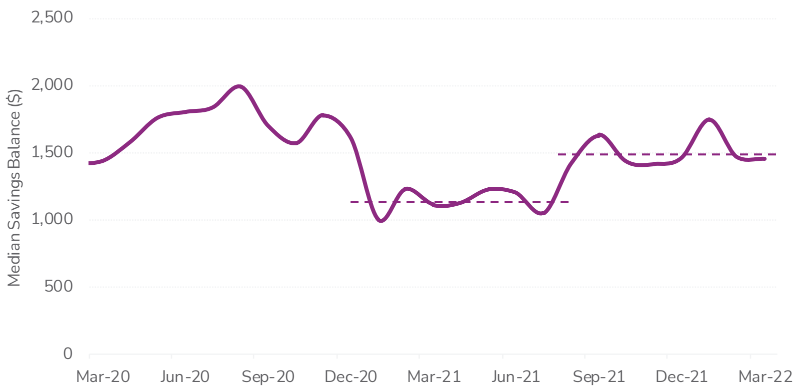
# The risks

We are entering a new phase in 2022 – one where the cost of living may continue to keep rising, supply chain movements and payments will be erratic, some consumers will do well, but others are already financially stressed. Businesses and lenders need to be ready for this.

illion can help you navigate these challenges.

## Saving Trends

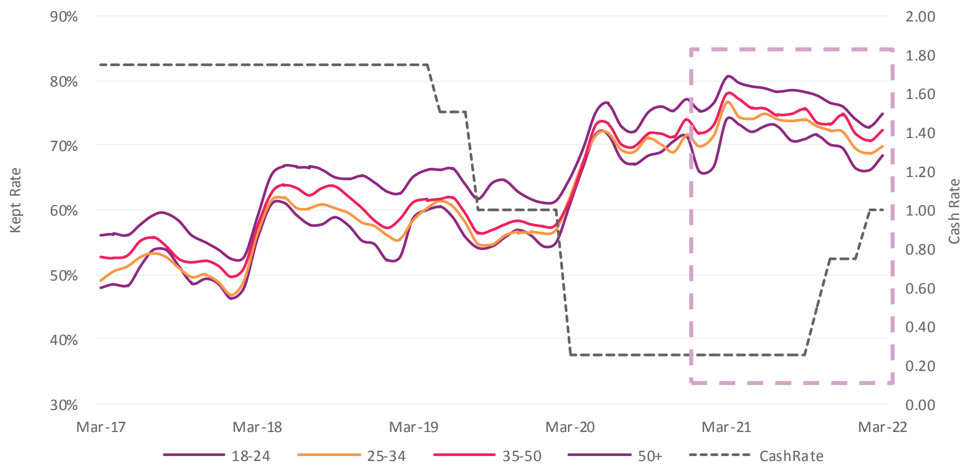
***Savings tend to drop when activity picks up, but inflation is putting more than usual pressure on consumers. Saving levels are surprisingly higher over the past six months (compared to the previous six months), despite restrictions easing. Consumers are more likely to be more cost conscious now than ever.***




Latest data references Mar-22.

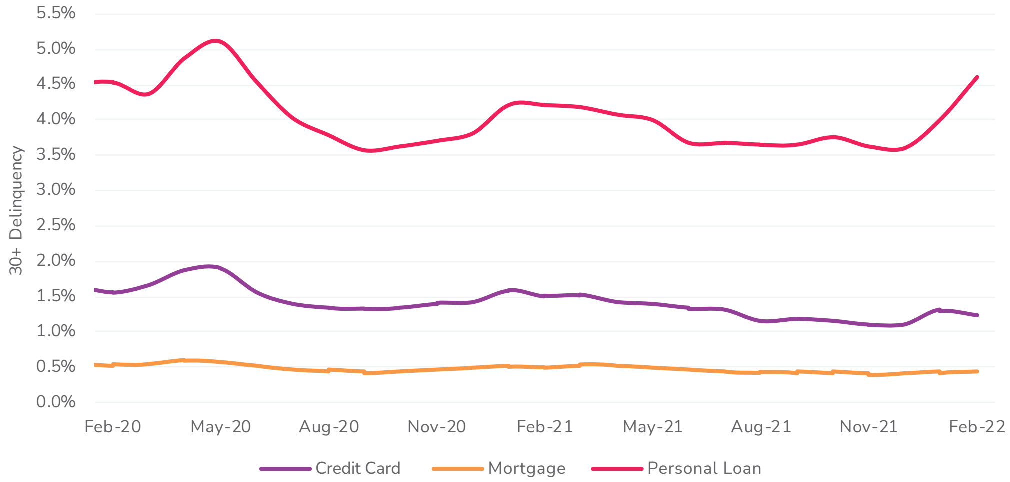
## Collections Behaviours

***Upward cost-of-living movement and subsequent increases in interest rates are putting on more financial pressure. Consumers with many debts to settle will be particularly impacted. Upward cost-of-living movement over the past six months have seen 'kept rates' decrease by 5-10% in some segments. Younger age groups in particular are feeling a tighter squeeze on their finances.***



## Consumer Delinquencies

***Financial stress is starting to show in some segments. Delinquencies have previously remained subdued because of large-scale and broad-based support. Stress is starting to show however, as many support measures disappear.***



# illion

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